



**North Carolina**  
Total Retirement Plans



*Dale R. Folwell, CPA*  
STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA

## **MINUTES**

### **BOARD OF TRUSTEES**

#### **OF THE LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM**

The regular quarterly meeting of the Board of Trustees was called to order at 9:30 a.m., October 31, 2019, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held in the Dogwood Conference Room of the Longleaf Building at 3200 Atlantic Avenue, Raleigh, NC 27604. The Chair thanked the members of the Board for their service. The Chair indicated there would be a public comment period for organizations and individuals to address the Board later in the agenda.

#### **Members Present**

Treasurer Dale R. Folwell, Allen Buansi, Kathryn Johnston (designee for Mark Johnson), Greg Patterson, Sally Sandy, and Ashley Wooten.

#### **Members Attending via Telephone**

David Dear, Kevin Gordon, Brenda Howerton, and Aaron Meredith.

#### **Members Absent**

Cleveland Atkinson, Lentz Brewer, and Vernon Gammon.

#### **Guests Attending**

Jonathan Craven and Larry Langer of Cavanaugh Macdonald Consulting LLC, and David Draine and Michael Lowenthal of The PEW Charitable Trusts

#### **Department of State Treasurer Staff Present**

Thomas Causey, Joan Fontes, Ben Garner, Elizabeth Hawley, Timeka Holden, Patrick Kinlaw, Fran Lawrence, Frank Lester, Meryl Murtagh, Linda Nelson, Vicki Roberts, Anne Roof, Christina Strickland, Sam Watts, and Lorraine Whitman.

#### **Ethics Awareness and Identification of Conflicts or Potential Conflicts of Interest**

The Chair asked, pursuant to the ethics rules, about conflicts of interest of Board members. No conflicts of interest were identified by the Board members.

#### **Approval of the LGERS Minutes from the July 25, 2019 Board Meeting**

It was moved by Allen Buansi, seconded by Brenda Howerton, and carried unanimously by the Board that the LGERS minutes from the Board meeting held on July 25, 2019 be approved.

### **Background Actuarial Information**

The Chair recognized Larry Langer and Jonathan Craven of Cavanaugh Macdonald Consulting (CMC). Mr. Langer and Mr. Craven thanked the staff for their assistance in providing information necessary for their work. They noted that LGERS and the Teachers' and State Employees' Retirement System (TSERS) are the two biggest retirement plans making up 99% of RSD liabilities. Mr. Langer and Mr. Craven discussed the actuarial valuation process as well as a brief summary of the results of the valuations of the Retirement Systems as of December 31, 2018.

### **TSERS Stress Test Analysis**

The Chair recognized David Draine and Michael Lowenthal of The Pew Charitable Trusts to provide the results of a stress test on the funding of TSERS. Mr. Draine and Mr. Lowenthal stated that, although the stress test analysis was based on TSERS, many of the concepts and findings would pertain to the other North Carolina Retirement Systems. Mr. Draine and Mr. Lowenthal provided background information on The Pew Charitable Trusts, Pew's goals, what stress testing is, and the benefits of stress testing. Mr. Draine and Mr. Lowenthal reported that as of 2017, North Carolina's pension funding ratio was 90.7%, sixth-highest in the nation. Further, North Carolina's ratio of net amortization to payroll was 1.8%, and the ratio of operating cash flow to assets was -3.1%. Mr. Draine and Mr. Lowenthal reported that even in downside scenarios the current funding policy sustains progression to full funding. However, if the current funding policy is not followed, a severe recession scenario would cause the funding level of TSERS to deteriorate. They stated that regular stress testing, as proposed in Senate Bill 488, would enable policymakers and plan administrators to remain informed about the risks facing the Retirement System and to evaluate any future changes. The Chair agreed that regular stress testing is important to the careful management of risks, given the knowledge that retiree headcounts and benefit payments will continue to increase. The Chair noted that the Board could implement its own regular stress testing without legislation requiring it; however, to encourage funding discipline, it would be better for the testing to be prescribed in statute.

### **Death Benefit Plans Actuarial Valuation Principal Results**

The Chair recognized Larry Langer and Jonathan Craven of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the Death Benefit Plans as of December 31, 2018. Mr. Langer and Mr. Craven stated that according to their projections, the Retirees' Contributory Death Benefit fund will remain solvent until 2073. They stated that cash flow depletion is not an imminent problem, but there is still cause for concern over the long term due to the funding deficit.

It was moved by Ashley Wooten to accept the report, seconded by Sally Sandy and carried unanimously.

### **Local Governmental Employees' Retirement System Actuarial Valuation Principal Results**

The Chair recognized Larry Langer and Jonathan Craven of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the Local Governmental Employees' Retirement System as of December 31, 2018. A Board member asked if the observed increase of 0.9% in active employee headcount was out of the ordinary. After being recognized by the Chair, Mr. Langer and Mr. Craven responded that while the actuarial projections assume no change in active employee headcount in future years, the observed increase was within a reasonable range. The Chair commented that depopulation in some areas of the state has added pressure to local government budgets, including causing legacy pension costs to grow relative to the size of the budget.

It was moved by Allen Buansi to accept the report, seconded by Sally Sandy and carried unanimously.

### **Registers of Deeds' Supplemental Pension Fund Actuarial Valuation Principal Results**

The Chair recognized Larry Langer and Jonathan Craven of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the Registers of Deeds' Supplemental Pension Fund as of December 31, 2018.

It was moved by Greg Patterson to accept the report, seconded by Ashley Wooten and carried unanimously.

### **Firefighters' and Rescue Squad Workers' Pension Fund Actuarial Valuation Principal Results**

The Chair recognized Larry Langer and Jonathan Craven of Cavanaugh Macdonald Consulting (CMC) to provide the principal results of the actuarial valuation for the Firefighters' and Rescue Squad Workers' Pension Fund as of December 31, 2018.

It was moved by Allen Buansi to accept the report, seconded by Sally Sandy and carried unanimously.

### **Operations, Member Services and Compliance Updates**

The Chair recognized Rick Lopez, Director of Operations, Vicki Roberts, Director of Member Services and Patrick Kinlaw, Director of Policy, Planning & Compliance for an update on the Division's operations.

The Chair recognized Director of Operations, Rick Lopez. Mr. Lopez reviewed the key takeaways from the operations report, noting that the turnaround has continued to exceed the turnaround goal. The current rate for processing and paying retirements within 60 days is 100.0%. Mr. Lopez reported on benefit processing for death notifications, benefit processing for disability applications, and benefit processing for refund requests. Further, Mr. Lopez reported on the monthly payroll processing. There are over 327,000 payees, with over \$534 million in payments in September. Mr. Lopez also reported on the use of the online system, noting use of the online system continues to grow.

The Chair recognized Director of Member Services, Vicki Roberts, for a presentation on the metrics for Member Services. Ms. Roberts reported on member correspondence. She noted that RSD continues to answer correspondence within the established turn-around-time, as well as exceeding the goal. Ms. Roberts reported on the Educational Retirement Group Meetings and Webinars, as well as the number of office visitors and counseling sessions. Ms. Roberts reported on the call center service level. She noted that RSD continues to exceed its goal of calls answered within sixty seconds, and that in September RSD received 20,544 call center calls, and that the average speed of answer was thirty-four seconds.

The Chair recognized Director of Policy, Planning, and Compliance, Patrick Kinlaw. Mr. Kinlaw reported on Contribution-Based Benefit Cap (CBBC) Liabilities. He noted that as of October 3, 2019, 266 retirements have required an additional employer contribution since January 1, 2015, with total CBBC liabilities invoiced exceeding \$26 million. Of those invoices, 225 have been paid in full and the total amounts collected exceed \$20 million. Mr. Kinlaw also reported on the collection of overpayments. In the past twelve months, the actual collections were over \$10.5 million. As of September 30, 2019, the total outstanding amount of identified overpayments was approximately \$38.8 million.

### **Contribution-Based Benefit Cap Average Final Compensation Threshold Determination**

The Chair recognized Patrick Kinlaw, Director of Policy, Planning, and Compliance. Mr. Kinlaw reported to the Board an increase of 1.6% in the threshold under N.C.G.S. § 128-27(a3) and reported on the administration and

communication of the increase in the average final compensation threshold for CBBC invoices to \$109,746.34 for retirements effective in 2020.

It was moved by Sally Sandy to accept the report, seconded by Allen Buansi and carried unanimously.

### **Update of the Investment Advisory Committee (IAC) Meetings**

The Chair recognized Greg Patterson for an update on the IAC meetings. Mr. Patterson began his discussion by reporting on the last IAC meeting which was held on August 21, 2019. When we compare the total net portfolio return versus benchmarks as of June 30, 2019, the one-year return was 6.6%, versus a benchmark of 6.1%; the five-year return was 5.5%, versus a benchmark of 4.8%; and the ten-year return was 8.4%, versus a benchmark of 7.8%. For the year ending June 30, 2019, the “selection effect” was a positive 0.78% return, indicating that the selected fund managers delivered a strong performance relative to the expected performance of each asset class, and the effect of asset allocation timing during the year was negative 0.31%. Mr. Patterson stated that the total additional return over the benchmark, an additional return of positive 0.47% above benchmark for the year, is considerable when applied to \$100 billion. Mr. Patterson acknowledged the commitment and dedication of the staff of the Investment Management Division of the Department of State Treasurer.

### **Public Comment Period**

There were no public comments made.

### **Board of Trustees Comments**

The Chair asked the Board if there were any comments prior to adjournment of the meeting. A member of the Board of Trustees of TSERS asked the Chair to comment on media reports about a local government’s announcement that an individual would retire and subsequently return to work. The Chair stated that while he cannot discuss an individual situation, longstanding IRS regulations and conforming state law require that an employee must have a true separation from employment to be considered retired. Ashley Wooten thanked the Chair for his recognition and awareness of issues facing firefighters. Allen Buansi expressed his appreciation to the Pew Charitable Trusts and Cavanaugh Macdonald Consulting for their insightful presentations, and to Retirement Systems Division staff for thoroughly informing the Board regarding operations and member services. Sally Sandy stated that she appreciates the dedication and seriousness of Board members as they consider their very consequential decisions, and she particularly appreciates the way that Retirement Systems Division staff members carry out their work, remembering that they are helping real people with real problems. Kathryn Johnston reminded those present that the State Board of Education is taking donations for schools affected by Hurricane Dorian. The Chair thanked the Pew Charitable Trusts for the analysis and presentation that they prepared for today’s meeting at no cost. The Chair requested that the meeting be closed in memory of the late United States Senator Kay Hagan.

### **Adjournment**

There being no further business before the Board, Sally Sandy moved to adjourn, which was seconded by Allen Buansi, and the meeting was unanimously adjourned at 1:37 p.m.